

IRS TAX TIP 2002-33

CAPITAL GAINS AND LOSSES

Almost everything you own and use for personal purposes, pleasure or investment is a capital asset. The IRS says that when you sell a capital asset, the difference between the amount you sell it for and your basis, which is usually what you paid for it, is a capital gain or a capital loss. While you must report all capital gains, you may subtract only your capital losses on investment property, not personal property.

Capital gains and losses are classified as long-term or short-term, depending on how long you hold the property before you sell it. If you hold it more than one year, your capital gain or loss is long-term. If you hold it one year or less, your capital gain or loss is short-term.

Report your short-term and long-term capital gains and losses on Form 1040, Schedule D, "Capital Gains and Losses." If you have a taxable capital gain, you may be required to make estimated tax payments. See Publication 505, "Tax Withholding and Estimated Tax," for additional information on estimated tax.

The maximum tax rates on net capital gain have been reduced for most sales and exchanges after May 6, 1997. For more information on the maximum tax rates, refer to Publication 544, "Sales and Other Dispositions of Assets."

If your capital losses exceed your capital gains, the excess is subtracted from other income on your tax return, up to an annual limit of \$3,000 (\$1,500 if you are married filing separately). If your net capital loss is more than this limit, figure the amount of loss that can be carried forward to later years by using the Capital Loss Carryover Worksheet in the instructions for Schedule D.

Additional information on capital gains and losses is available in Publication 550, "Investment Income and Expenses," and Publication 17, "Your Federal Income Tax." You may download the publications from the IRS Web site at www.irs.gov or order them by calling 1-800-TAX-FORM (1-800-829-3676).

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